

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT
OF
DEPARTMENT OF CORRECTION
STATE OF INDIANA
April 1, 2003 to February 28, 2005

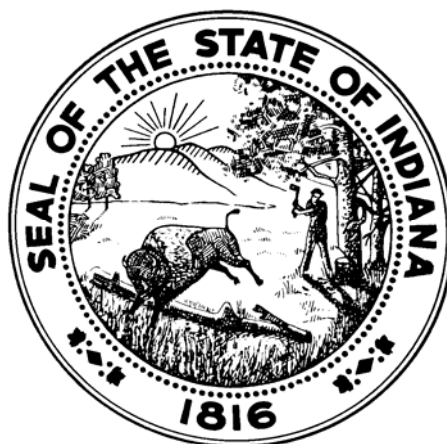


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AGENCY OFFICIALS

Office

Official

Term

Commissioner

Ms. Evelyn Ridley-Turner
Mr. J. David Donahue

02-01-01 to 01-09-05
01-10-05 to 01-11-09



STATE OF INDIANA

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF CORRECTION

We have reviewed the receipts, disbursements, and assets of the Department of Correction for the period of April 1, 2003, to February 28, 2005. The Department of Correction's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Department of Correction are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

April 12, 2005

DEPARTMENT OF CORRECTION
OTHER REPORTS

Separate review reports are prepared for the following institutions:

Branchville Correctional Facility
Camp Summit
Chain O'Lakes Correctional Industrial Facility
Correctional Industrial Facility
Fort Wayne Juvenile Correctional Facility
Henryville Correctional Facility
Indiana State Prison
Indiana Women's Prison
Indianapolis Juvenile Correctional Facility
Lakeside Correctional Facility
Logansport Juvenile Correctional Facility
Madison Correctional Facility
Maximum Control Facility
Medaryville Correctional Facility
Miami Correctional Facility
New Castle Correctional Facility
North Central Juvenile Correctional Facility
North East Juvenile Correctional Facility
Pendleton Correctional Facility
Pendleton Juvenile Correctional Facility
Plainfield Correctional Facility
Plainfield Juvenile Correctional Facility
Putnamville Correctional Facility
Reception-Diagnostic Center
Rockville Correctional Facility
South Bend Juvenile Correctional Facility
South Bend Work Release Center
Wabash Valley Correctional Facility
Westville Correctional Facility
Westville Transitional Facility

DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 28, 2005

ATTENDANCE REPORTS

As stated in the prior review report (B22336), we observed that employee attendance reports were frequently signed and dated prior to the last day worked.

Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

SUPPLEMENTATION OF APPROPRIATIONS

As stated in the prior review report (B22336), the Department of Correction deposited several refunds for previous fiscal year expenditures as current year refunds. By recording these as refunds of current year expenditures, the Department of Correction is supplementing its State appropriations by the amount deposited.

A refund of expenditure can only be used if the original disbursement and the refund or collection are within the same fiscal year. If the collection is not received within the same fiscal year as the related expenditure, then the collection must be recorded as miscellaneous revenue. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

PERMANENT VEHICLES

It was observed during the review of mileage logs for permanent vehicles that many employees were driving their vehicle less than 1,000 miles per month. It was also observed that nine of the seventy-four mileage logs reviewed with less than 1,000 miles were for commuting miles only.

For employees to be assigned vehicles on a permanent basis it must be shown that duties require travel in excess of 1,000 miles per month, or that the vehicle is identified as an integral part of the job. [P.L. 224-2003, Section 24, Appropriation Act] (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

SDO FUND RECONCILIATIONS

The Department of Correction has not performed reconciliations for its Preventative Maintenance/Youth Rehab Facility Special Disbursing Officer (SDO) advance in a timely manner.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 28, 2005
(Continued)

OUTSTANDING SDO CHECKS

The Department of Correction's Parole and Central Office Special Disbursing Officer (SDO) accounts had three checks which have been outstanding for over two years.

Indiana Code 4-10-10-1 provides that all checks authorized by law to be issued from funds in custody of any state agency which have been outstanding and unpaid for a period of two or more years as of the last day of December of each year shall be declared canceled.

Indiana Code 4-10-10-1 requires that the amounts of such outstanding checks shall be entered as a receipt into the fund or account from which they were originally drawn and be removed from the record of outstanding checks.

MISCLASSIFICATION OF FEDERAL REVENUE

It was found during the review of the Department of Correction that federal grant revenue was incorrectly deposited as miscellaneous revenue under revenue object code 490000. Revenue received for federal grants should be deposited using one of the revenue object codes for federal grant revenue.

The agency has the responsibility for recording and submitting documents prepared as input to the Auditor of State's accounting system. The proper utilization of the state system includes the objectives of: timely submission of documents; proper classification of transactions; recording of accurate amounts; and verification of correct posting to reports. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INACTIVE FUND/CENTERS

As stated in the prior review report (B22336), the Department of Correction has the following fund/centers which have had no recent activity:

<u>Fund/Center</u>	<u>Fund/Center Name</u>	<u>Balance</u>
1000/216000	Juvenile Travel Expenses	\$ 4,829.70
3800/337740	RDC Addition	241.00

If a fund/center has been inactive for a period of two or more years, the agency should contact the State Budget Agency as to the continued need for any inactive funds on hand. If the fund/center contains federal funds, the grantor must be contacted regarding a balance owed. When a fund/center is no longer necessary, the agency's Budget Analyst should be contacted concerning elimination of the remaining balance. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 2)

DEPARTMENT OF CORRECTION
REVIEW COMMENTS
February 28, 2005
(Continued)

FIXED ASSET INVENTORY

Two of the ten fixed assets chosen to locate at PEN Products were on the division's "lost list". PEN Products Information Technology personnel are investigating the location of these items.

Agency officials are ultimately responsible for the accountability and security of all assets. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

SDO FUND RECONCILIATIONS

PEN Products has not performed reconciliations of its Special Disbursing Officer (SDO) advance for Central Office and New Castle in a timely manner.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Our documentation of the flow of cash receipts at PEN Products revealed that checks received are not restrictively endorsed immediately upon receipt during the mail opening process at the receptionist desk. The checks are not restrictively endorsed until they are processed by the accounts receivable account clerk.

Basic procedures required for all agencies include that checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

CREDIT CARD PAYMENTS

As stated in our prior audit reports (B14864) and (B22336), PEN Products accepts credit cards for payment of product sales.

We found no statutory authority for the acceptance of credit cards by the agency.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

DEPARTMENT OF CORRECTION
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2005, with Mr. J. David Donahue, Commissioner; and Mr. Joseph Fistrovich, Financial and Performance Chief Executive. The official response has been made a part of this report and may be found on pages 9 through 11.



STATE OF INDIANA
Department of Correction

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Mitchell E. Daniels, Jr.
Governor

J. David Donahue
Commissioner

TO: Mr. Charles Johnson III
State Examiner
State Board of Accounts

FROM: J. David Donahue
Commissioner

DATE: May 19, 2005

SUBJECT: RESPONSE TO BOARD OF ACCOUNT AUDIT

The Department has reviewed the findings of the audit and is submitting the following information to address each specific exception:

ATTENDANCE RECORDS

At the exit conference, the Department requested assistance on how to deal with payrolls that are required to be accelerated by the Auditor of State. The Department will identify those payrolls and note those with a memorandum attached to the notice by the Auditor of State.

As of the date of this memorandum, the Chief Financial Officer has been instructed to meet with the Payroll Supervisor to implement a system that prohibits acceptance of A-4s pre-signed for those payrolls not identified as accelerated by Auditor.

SUPPLEMENTATION OF APPROPRIATIONS

The issue of supplementing the Department's appropriation by depositing refunds for previous fiscal year expenditures as current year refunds has been discussed with section supervisors. After the previous audit, an email was sent out to all fiscal staff as a reminder that a refund of expenditure can only be used if the original disbursement and the refund or collection is within the same fiscal year. The Chief Financial Officer will follow-up again with an e-mail to insure that proper accounting is followed.

PERMANENT VEHICLES

In January of 2005, the Department implemented a reduction of fleet vehicles by 33 % (390 vehicles). In addition, the Department reduced the number of personal vehicles assigned. Any vehicle being driven less than 1000 miles will be reported monthly to the Chief Financial Officer for corrective action to be taken.

SDO FUND RECONCILIATIONS

As of the date of this memorandum, the two SDO accounts in question, 390300 and 390290 are reconciled. Both accounts balance to the Auditor's records as well as the check register.

OUTSTANDING SDO CHECKS

The Department concurs with this finding and will follow process required by IC 4-10-10-01 and State Board of Account recommendation.

MISCLASSIFICATION OF FEDERAL REVENUE

As of the date of this memorandum, the method of coding revenue was changed to be in compliance. The miscellaneous designation of 490000 will not be used.

INACTIVE FUND/CENTERS

The two fund centers have been forwarded to the Department's Budget Analyst, Mike Smith, for closing.

PEN PRODUCTS DIVISION

FIXED ASSET INVENTORY

A complete physical inventory was taken of IT equipment in all PEN Products locations to determine if the two pieces of equipment not found could be identified. The physical inventory did not identify the missing items. The individual responsible for the movement and disposal of IT equipment did not follow appropriate procedures. This individual is no longer with PEN. The Department's Technology Services Division has assigned staff to be responsible for this function.

SDO FUND RECONCILIATIONS

The two SDO accounts identified in this audit had been reconciled prior to the audit's completion. Future reconciliations will be assigned to the General Ledger Section of PEN Finance Division.

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Mr. Charles Johnson

INTERNAL CONTROLS OVER REVENUE COLLECTIONS

On May 17, 2005, restrictive endorsement was initiated at the reception desk.

CREDIT CARD PAYMENTS

In October of 1997, PEN Products began accepting credit card payments as a convenience to customers. Currently, the vendor providing this service is Bank One. I've concurred with that this mode of payment should be offered to PEN's customers. The Department will continue to monitor this process and insure that all appropriate internal control procedures are followed.